

## Energy UK Explains: The role of prepayment meters and protections for customers

January 2024

### Key Points

- Prepayment meters (PPMs) help customers monitor and budget their energy usage. Much like a pay-as-you-go mobile phone contract, PPMs mean that customers pay for energy as they use it, instead of building up credit or paying quarterly, which helps reduce the chance of debt build-up.
- Whilst many PPM customers prefer this way to pay, in cases where there is already a high build up of debt it may be necessary to install a PPM in a household under warrant, known as an involuntary PPM.
- Involuntary PPMs play an important role in enabling suppliers to meet their responsibility to try and prevent customers from falling further into arrears – as well as limiting the build-up of bad debt overall, which is at a record high and ultimately recouped from all customer bills. Without this tool, all paying customers would end up footing the bill for the resulting bad debt on a minority of customer bills.
- Installing involuntary PPMs is a last resort and suppliers will only be allowed to restart installations when they can satisfy Ofgem's restart conditions.
- In April 2023, energy suppliers signed up to a new [Code of Practice](#) developed by Energy UK, Ofgem and the Government, which is now mandatory.
- These new rules mean that customers are now better protected than ever. Ofgem will be monitoring individual suppliers to ensure that the tests to protect customers are met.
- For the most vulnerable, the new rules go even further and mean that those who are at risk of going off supply will be able to request and receive credit from their supplier.
- Energy UK also worked with its members, Citizens Advice and Ofgem to create [The Winter 2023 Voluntary Debt Commitment](#). This sets out additional actions that energy suppliers will take, above regulatory obligations, to support customers with payment difficulty.
- Despite this extra support, debt is still rising unsustainably across the energy sector which impacts all customers.
- There is a wider affordability crisis in the economy, and many customers will continue to struggle to afford their energy bills. The Government must urgently look into an enduring solution for support targeting the most vulnerable households.

### Why do PPMs exist?

- PPMs are an important payment option as they help millions of households control their spending on energy and avoid debt build-up.
- PPM customers can control and budget their energy without the worry of a large, unexpected bill. This is particularly useful for people who have a weekly income and want to avoid a large monthly or quarterly bill.
- PPMs also allow customers who have built-up debt to pay this back in agreed fixed instalments.
- Smart PPMs enable further benefits including better debt management for the customer, improved customer interactions and the ability to provide instant support/credit.
- Smart PPMs also allow suppliers to analyse data directly from customers to see if they are at risk of self-disconnection and [have a series of ways to help](#) if the customer has a vulnerability that would make a PPM no longer safe to use (such as cognitive decline or learning difficulties).

### Protections in place for PPM customers

- PPMs should only be installed under warrant as a last resort and have met Ofgem's requirements such as 10 attempts by the supplier to contact their customer and arrange a payment plan.
- There are a number of measures in place to ensure that vulnerable customers are protected. This includes the 'Do not install' category, covering certain health issues, households with children under two and those where occupants are over 75 and do not have support in the household.

- There are also other new ways to help prevent customers falling into further debt in the first place, such as:
  - Prices for PPM customers will now be the same as those of direct debit customers. Previously Ofgem's price cap meant that PPM customers were paying more.
  - Further credit is available for PPM customers who might otherwise be at risk of going off supply.
  - Suppliers must undertake extra steps to assess customers facing financial difficulty.
- Suppliers are going above and beyond the regulatory obligations to protect households via [additional funding for customers](#), the recent [Winter 2023 Voluntary Debt Commitment](#), and twelve are signed up to the [Energy UK Vulnerability Commitment](#), which now covers 90% of the domestic retail energy market.

### Dealing with debt in the energy retail sector

- Energy debt is at a record £2.9 billion.<sup>1</sup> This figure however does not reflect the full picture. It does not include any money owed by direct debit customers, debt on PPMs, any debt less than 90 days old, or the final debt after a Change of Tenancy.
- As a result, it is estimated that the actual amount owed to suppliers in the industry is [2.5 to 3.3 times higher than currently reported and rising fast](#).
- Ofgem estimates that the moratorium on involuntary PPM installations has added £25m per month of additional debt-related costs.
- The energy retail market for the last few years has been [loss-making on average](#). This is an unsustainable situation for industry and households and must be considered when looking at the future of the retail market.
- Some suppliers have recently made a profit, this boost in profitability is likely to be temporary and due to the Price Cap [allowing suppliers to recover recent losses](#).

### Looking ahead

- Debt is rising unsustainably across the industry which is resulting in higher bills for all customers.
- It is therefore important that suppliers have tools available to help limit debt build-up while protecting vulnerable customers. Ofgem will be monitoring individual suppliers to ensure that the stringent tests in place to protect customers are met.
- Whilst PPMs are an important tool to address the increasing debt in the industry, it is clear that a long-term, enduring solution is required for customers in most need.
- The Government needs to urgently deliver on its promise of a consultation addressing targeted bill support for vulnerable customers.
- It needs to be funded progressively through general taxation, rather than the regressive current option of funding it through bills.
- It should be underpinned by improved data and data-sharing capable of targeting support based on household income data. Whilst suppliers should deliver it, the Government must determine eligibility.
- It also needs to be designed in a way that maintains the ability and incentive to engage the market, ensuring its long-term sustainability.

### Recent changes to PPM policy

- February 2023 – Ofgem [investigates reports](#) related to supplier practice and begins a review of PPM licence conditions.
- February 2023 – All suppliers pause involuntary installations as part of a market-wide moratorium.
- April 2023 – Energy [suppliers sign up to a new Code of Practice](#) for the involuntary installation of PPMs under warrant.
- August 2023 – Under [Government direction](#), Ofgem seeks to permanently end the premium placed on PPM customers. Ofgem carried out a Call for Evidence regarding the levelling of the cost of the standing charge across PPMs. We are currently awaiting the decision.
- September 2023 – Ofgem confirms that [the Code of Practice has been made mandatory](#) as part of the supplier licence conditions.
- November 2023 – Ofgem confirms it will be determining on a supplier-by-supplier basis when new stringent licence conditions have been met and they are ready to restart installs.
- January 2024 – Suppliers that have satisfied Ofgem's requirements are granted permission to restart involuntary installations

---

<sup>1</sup> [Energy Price Cap: Additional debt costs review consultation, Ofgem \(2023\)](#)